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NOVEMBER 1982 ISSUE

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NOVEMBER 1982 ISSUE

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This forecast uses the October, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the October 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 EXECUTIVE SUMMARY, OVERVIEW, AND ASSUMPTIONS

1.01 EXECUTIVE SUMMARY

The forecast for the economy is slightly reduced to real growth averaging 2.8 per cent for the next year. Interest rate declines have been forecast here for a long time for this part of 1982. The forecast has become reality. REAL GROWTH This quarter continues with mixed news, but the fourth quarter will show small gains. PRICES Inflation has continued to slow. KEDI sees the rate for the next few years as somewhat higher than most. EMPLOYMENT The jobless rate is slightly increased here. The average for 1982 is now seen as 9.5 per cent and it is possible that the rate will edge up just a tad in the next few months. HOUSING The September increase in housing starts is in line with forecasts maintained here for many months. Still, housing will remain curtailed as compared to "normal" levels. AUTOS The forecast is not changed. Auto executives have recently cut production again--to levels more in line with those forecast here for quite some time. BUDGETS KEDI does not expect red ink in such an overwhelming flow as the Congressional Budget Office. A balanced budget is out of the question in the next few years. Achieving it would be at a very high price to the economy. INCOME The forecast remains the same. CPI and wage projections combined work out to average wages being about the same, in real terms, over the next few years. MONEY AND CREDIT The forecast maintained here has become reality: relaxation. A tightening will occur next year. INTEREST RATES The recent declines have been part of the projections here since 1980. The prime rate is now seen as being in the 12.5 range at year's end.

1.02 OVERVIEW

KEDI has slightly lowered its forecast of real growth over the next few years to 2.8 from an average of 3.0 per cent. Still, it is not as gloomy as the Federal Reserve and other leading forecasters. The Fed forecasts growth of just 2 per cent over the next 12 months, adjusted for inflation.

For over two years, KEDI has predicted that interest rates would be going down in the latter part of 1982. They have been doing that recently. Calculations show that enough funds will be generated to cover federal deficits without pressure to increase interest rates. Most economists predicted that interest rates would go up. KEDI was one of the few that foresaw the decline that has been occuring of late. It is forecast here, that the interest rate declines have reached a plateau. Stability will prevail next year as will restrictive Federal Reserve policy.

This Institute has maintained here the recovery next year will be quite slow. That view is now being confirmed. The Business Council (200 chief executives of large corporations) predicted early in October that the recovery will be slow and painful as the jobless rate will not decline much by the end of next year. G. William Miller, the former Treasury secretary under Carter, sees recovery as slow and sluggish. The chairman of the U.S. Chamber of Commerce predicted a very moderate upturn that has, in effect, begun.

MIT professor Lester C. Thurow sees no sign of recovery, but does see continuation of what we have had this year.

1.03 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, assumptions No. 6 and No. 7 have been updated.

1. In 1986, all U.S. demand for oil should be met. In 1983, it is expected the weighted price of oil will be $34 per barrel; in 1984 it will go up to $37 per barrel; in 1985, to $40 per barrel, and in 1986, to $42 per barrel.

2. It is expected that the Mid-east crisis will continue throughout this year and more normal economic conditions including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In the second half of 1982 some relaxation, and in 1983 tightening is expected.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. in 1983. A low harvest in the U.S.S.R. is expected in 1984, and U.S. record crops in 1984-1986.

7. Average rates of growth in 1982-1986 in the major industrial countries are anticipated: West Germany 3.0%; Japan 3.5%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in international relationships are assumed.

The November 1982 KEDI forecast is highlighted in Table 1.0 on page 4.

KEDI FORECAST HIGHLIGHTS

TABLE 1.00

Indicator	Unit	1981	1982	1985	1986
Gross national product	bil. 1972$	1502.6	1479.1	1637.4	1699.6
Index of industrial production	1967= 100	151.0	140.0	169.2	176.1
Capacity utilization	%	78.5	70.7	78.2	79.0
Unemployment rate	%	7.6	9.5	7.7	7.4
Private housing starts	%	1.084	1.016	1.556	1.617
Car sales	mil.	8.6	7.8	8.7	8.8
Implicit GNP price deflator	1972= 100	195.5	207.8	257.4	276.9
Consumer price index	1967= 100	272.4	290.0	362.6	391.5
Producer price index*	1967= 100	269.7	280.5	360.4	393.9
Federal eficit	bil.$	-60.0	-123.8	-72.6	-54.3
Personal income	bil.$	2415.8	2572.6	3188.8	3500.3
Prime rate	%	18.87	14.94	12.72	13.01
Mortgage rate	%	16.52	15.40	13.03	13.48
Currency plus demand deposits	bil.$	427.1	454.4	554.2	516.0
Commercial and industrial loans	bil.$	360.6	402.6	506.3	543.3

* Finished goods

1.10 REAL GROWTH

(Table 1.10 on page 6)

Recent data confirm the forecast that has existed here for many months: THE THIRD QUARTER WILL BE CLOSE TO FLAT AND THE FOURTH QUARTER WILL SHOW A SMALL GAIN.

The news continues to be mixed, but the pendulum is starting to swing slowly toward more items indicating stability or small gains.

First, the negative or "ho-hum" news.

1. Retail sales edged up just 1 per cent in September and that was largely due to a temporary spurt in car sales. Without the autos, retail sales were only up an adjusted 0.4 per cent. The auto sales were boosted by bargain purchases of the 1982 models before the 1983 ones are produced in "quantity." As far as the big retailers are concerned, two of the top five had declines in September. It is interesting that K-Mart and Montgomery Ward had losses while Sears and Penny's gains were in the 2 per cent range. Yet, the higher priced, higher-quality stores such as O'Neils and Bloomingdale's,(owned by May and Federated Department Stores, respectively), reported increases of 6 and 7 per cent. (The recession and the jobless rate are not hitting the middle and upper classes as hard as the working and lower-middle level of families.)
2. The monthly survey of buying managers did not show much that was favorable. A little over half viewed the third quarter as worse than the second one. About one-fifth are optimistic about the future.
3. The Conference Board reported consumer confidence remained low in September. The buying plans index moved down.

TABLE 1.10 REAL GROWTH

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1*	1982 2	3	4	1982	% (1)
Gross national product,1972$	bil. 1972 $	1502.6	1470.7	1478.4	1481.2	1486.0	1479.1	-1.6
Index of industrial product.	1967=100	151.0	141.6	139.2	138.1	141.0	140.0	-7.3
Unemployment rate	%	7.6	8.8	9.5	9.9	9.9	9.5	25.0
Capacity utilization rate	%	78.5	71.6	70.3	70.0	70.7	70.7	-10.0
Private housing starts	mil. units	1.084	.919	.958	1.104	1.084	1.016	-6.3
Car sales	mil. units	8.6	8.3	7.5	7.8	7.7	7.8	-9.4

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Gross national product,1972$	bil. 1972 $	1479.1	1500.7	1514.9	1527.1	1544.0	1521.7	2.8
Index of industrial product.	1967=100	140.0	143.5	147.1	149.2	152.8	148.2	5.8
Unemployment rate	%	9.5	9.3	8.9	8.4	8.3	8.7	-8.5
Capacity utilization rate	%	70.7	71.3	72.2	73.8	74.7	73.0	3.2
Private housing starts	mil. units	1.016	1.084	1.345	1.396	1.375	1.300	27.9
Car sales	mil. units	7.8	7.9	8.0	7.9	8.1	8.0	5.2

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Gross national product,1972$	bil. 1972 $	1521.7	1556.3	1572.6	1589.2	1603.9	1580.5	3.8
Index of industrial product.	1967=100	148.2	154.9	158.6	161.7	164.8	160.0	7.9
Unemployment rate	%	8.7	7.9	7.6	7.4	7.3	7.6	-12.7
Capacity utilization rate	%	73.0	75.4	77.2	77.8	78.6	77.3	5.8
Private housing starts	mil. units	1.300	1.385	1.418	1.492	1.481	1.444	11.0
Car sales	mil. units	8.0	8.3	8.4	8.5	8.6	8.5	6.2

*Historical data (1) % change over previous year

REAL GROWTH

4. Industrial production was off an adjusted 0.6 per cent in September after dropping by just 0.5 per cent in August. Since July of 1981, output has gone down by 10.8 per cent.

5. Incoming new orders were still edging down. In September, only 17 per cent of purchasing managers reported an increase in orders, whereas 32 per cent reported more declines.

Now, for some signs of improvements:

6. Business leaders are getting a bit more bright-eyed as to the future of the economy. The confidence index of the Conference Board's survey of 1,500 chief executives moved up to 55 in the third quarter. It had been at 52 in the second quarter (1969-70=100).

7. Housing starts gained in September. Indications are they will continue. See more in the Housing section.

8. The drop in interest rates will definitely show in gains for the economy. The reader is referred to the section on interest rates.

9. Productivity rose at an annual rate of 4 per cent in the third quarter. Unemployment does that--some gain in productivity goes along with high jobless rates.

10. The September decline in the capacity utilization rate is seen here as insignificant.

11. It is good news of a mild sort that inventories are about stable. Companies have generally stopped reducing their stocks.

12. As to the stock market surge, retrenchment, surge, it is the view here that it is temporary. The stock market is seen as firm and generally stable in the last quarter of this year and during 1983.

1.20 PRICES

(Table 1.20 on page 9)

Good news here. The advances in the prices as measured by both the CPI and the PPI show more slowing down. In September, the declines in mortgage rates helped hold the CPI change to roughly 6.0 per cent. That was the lowest rate of change in five months.

Producer prices inched down to a September level, unadjusted, of 281.4 per cent of the 1967 average from the prior month's level of 282.4.

There is a range of outlooks among economists and others trying to get a grip of the future of the economy. The Federal Reserve has some board members that hope to see the rate of inflation near 4 per cent by the end of next year and 3 per cent in 1984. That is seen here as wistful thinking. One Fed governor, Henry Wallich, sees settling for rate of, say, 6 per cent no more sensible than settling for 16 per cent. Aiming for as close to zero as you can get is the goal for him. Anthony Solomon, president of the New York Federal Reserve hopes to aim toward zero and complete the trip toward greater price stability.

Reality is not the same as hopes. A more realistic view is expressed by Lawrence Chimerine of Chase Econometrics. He does not see inflation as going much lower than it is now. According to him and other forecasters, inflation will be around 5 per cent this year.

Data Resources and Wharton Econometric view the inflation rate in the 5-6 per cent area for the next few years. That is seen here as still too hopeful.

Some corporate executives predict the rate as going up in the 6.5-7.0 per cent range in 1983. Others look to the 5-6 per cent mentioned here.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1 *	2	3	4	1982	% (1)
Consumer price index,n.s.a.	1967=100	272.4	283.6	287.4	292.8	296.1	290.0	6.5
Producer price index,n.s.a.**	1967=100	269.7	277.2	278.2	281.2	285.9	280.6	4.0
Implicit GNP price deflator	1972=100	195.5	203.6	206.0	208.9	212.7	207.8	6.3
Gross national product	bil.$	2937.7	2995.5	3045.2	3091.4	3160.5	3073.3	4.6
Personal consump.expend.	bil.$	1843.2	1919.4	1947.8	1989.5	2016.7	1968.4	6.8
Gross private dom.investment	bil.$	471.5	414.8	431.5	438.5	452.6	434.4	-7.9

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Consumer price index,n.s.a.	1967=100	290.0	303.1	307.9	313.3	318.8	310.8	7.2
Producer price index,n.s.a.**	1967=100	280.6	291.3	298.8	306.1	311.7	302.0	7.6
Implicit GNP price deflator	1972=100	207.8	216.3	219.9	223.2	226.3	221.4	6.5
Gross national product	bil$	3073.3	3246.0	3331.2	3408.5	3494.1	3370.0	9.7
Personal consump.expend.	bil.$	1968.4	2061.3	2120.7	2203.7	2265.4	2162.8	9.9
Gross private dom.investment	bil.$	434.4	479.7	493.1	502.4	512.1	496.8	14.4

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Consumer price index,n.s.a.	1967=100	310.8	323.9	330.7	339.9	346.0	335.1	7.8
Producer price index,n.s.a.**	1967=100	302.0	314.6	323.9	333.8	345.0	329.3	9.0
Implicit GNP price deflator	1972=100	221.4	231.3	236.9	241.5	247.4	239.3	8.1
Gross national product	bil.$	3370.0	3599.7	3725.5	3837.9	3968.0	3782.7	12.2
Personal consump.expend.	bil.$	2162.8	2330.6	2350.8	2400.5	2450.2	2383.0	10.2
Gross private dom.investment	bil.$	496.8	519.7	536.5	550.1	564.9	542.8	9.3

*Historical data (1) % change over previous year **Finished goods

PRICES

So, what to make of all this? Be it a Federal Reserve governor's hope, or other forecasters calculations, KEDI predicts the rate will be higher. Inflation will march slowly ahead next year and the year after. The rate for 1983 is still seen as in the 7.2 per cent range. There will be no further downward trend.

1.30 EMPLOYMENT NAD LABOR

(Table 1.30 on page 11)

KEDI anticipates a very small change in the unemployment rate in the last quarter of this year as compared to the September rate of 10.1 per cent. That rate did just edge over the rate seen as most likely here.

This Institute now agrees with Martin Feldstein (nominee for chairman of the Council of Economic Advisers) that there will likely be more bad news coming about joblessness over the next few months. However, KEDI is not as pessimistic as Allen Sinai of Data Resources. He sees a 10.5 per cent jobless rate at the end of the year as a possibility, The revised forecast along with the forecast from last month is presented.

	Average Unemployment Rate	
	Current issue	October issue
1982	9.5%	9.4%
1983	8.7%	8.6%
1984	7.6%	7.5%

In other countries, things are mixed. The jobless rate in England was up to 13 per cent in August. The rate in Canada was 12.2 per cent for the same month. Some countries are better off--statistically at least. The West German rate was at 7 per cent in September and the Swedish rate was at 3.4 per cent. The Japanese rate was at 2.2 per cent this September.

TABLE 1.30 EMPLOYMENT AND LABOR

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.2	110.7	111.7	110.4	1.6
Employment	mil.	100.5	99.5	99.8	99.8	100.7	100.0	-.5
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agricult.	mil.	97.1	96.1	96.4	96.5	97.4	96.6	-.5
Unemployment rate	%	7.62	8.77	9.46	9.89	9.86	9.50	24.7

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.4	112.4	113.6	114.7	115.6	114.1	3.4
Employment	mil.	100.0	101.9	103.6	105.1	106.0	104.2	4.2
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agricult.	mil.	96.6	98.6	100.2	101.8	102.6	100.8	4.3
Unemployment rate	%	9.50	9.34	8.86	8.35	8.28	8.71	-9.8

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.1	116.7	117.4	118.2	119.5	118.0	3.4
Employment	mil.	104.2	108.4	108.4	109.5	110.8	109.3	4.9
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agricult.	mil.	100.8	105.1	105.1	106.1	107.4	105.9	5.1
Unemployment rate	%	8.71	7.94	7.63	7.39	7.31	7.56	-13.2

*Historical data (1) % change over previous year

1.41 HOUSING

(Table 1.41 on page 13)

It has been forecast here for the last year that housing would begin to pick up in the third and fourth quarters of this year. In September there was a 14.4 per cent increase in housing starts.

This Institute does not agree with Commerce Undersecretary Robert Dederick in his assessment that house building will likely assume its traditional leading role in recovery of the economy.

For 1983, KEDI expects relatively significant improvement. It is relative to the base, i.e., the gain seems large, but given more normal levels of 1.8-2.0 million units a year, it is still well below par--recuperating but not yet well. Housing and autos will not be the pillars of recovery that they have been in the past. This economy is becoming a service economy and growth there is becoming a leader.

Single-family units are seen as increasing by 25 per cent in 1983 and multifamily units by 32 per cent. Although that seems high, it still leaves the total for 1983 at roughly 1.3 million units--still below normal by historic standards.

KEDI agrees with Michael Sumichrast of the National Association of Home Builders that housing will continue to improve with decreases in interest rates.

KEDI's long-term forecast of housing starts is presented:

	Housing starts total (mil.units)
1982	1.016
1983	1.300
1984	1.444
1985	1.556
1986	1.617

TABLE 1.41 HOUSING

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2*	3	4	1982	% (1)
Single-family housing starts	mil.	.706	.586	.603	.638	.645	.618	5.5
Multifamily housing starts	mil.	.379	.333	.355	.476	.449	.403	6.3
Mobile home shipments	mil.	.241	.238	.246	.256	.257	.249	3.3
Permits authorized	mil.	.969	.832	.924	1.114	1.167	1.009	4.1
1-family unit** price, new	tho.$	83.1	80.8	85.9	92.0	96.4	88.8	6.9
1-family unit** price,existing	tho.$	78.0	79.2	80.8	83.0	86.3	82.3	5.5

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Single-family housing starts	mil.	.618	.654	.805	.814	.806	.770	24.6
Multifamily housing starts	mil.	.403	.430	.540	.582	.569	.530	31.5
Mobile home shipments	mil.	.249	.273	.295	.308	.329	.301	20.9
Permits authorized	mil.	1.009	1.014	1.181	1.319	1.310	1.206	19.5
1-family unit** price, new	mil.	88.8	98.0	101.4	102.8	104.9	101.8	14.6
1-family unit** price,existing	tho.$	82.3	88.9	91.8	94.6	97.0	93.1	13.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Single-family housing starts	mil.	.770	.791	.827	.863	.875	.839	9.0
Multifamily housing starts	mil.	.530	.594	.591	.629	.606	.605	14.2
Mobile home shipments	mil.	.301	.295	.319	.340	.308	.316	5.0
Permits authorized	mil.	1.206	1.275	1.372	1.396	1.326	1.342	11.3
1-family unit** price, new	tho.$	101.8	107.2	110.4	113.7	116.0	111.8	9.8
1-family unit** price,existing	tho.$	93.1	98.9	101.1	103.5	105.2	102.2	9.8

*Historical data (1) % change over previous year **Not seas. adjusted

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast remains essentially unchanged. Both the short-term and long-term view are gloomy at this Institute.

The early October rise is considered temporary. Mid-October sales were down 0.4 per cent below the year earlier period and reached a 24-year low for that 10-days period.

Production plans were cut again for the fourth quarter. Since July the three major auto makers have trimmed their fourth quarter production plans by 12 per cent. They are now more in line with what has been forecast here for many months. For the fourth quarter, the five major auto companies look to making a total of 1.27 million cars which is 1.7 per cent lower than the final quarter of 1981. Total car output for 1982 will be roughly in the 5 million range, according to those in the industry. That would make it the smallest output since 1958 and 18 per cent below 1981's paltry production. Earlier there were hopes in the industry of a bullish final quarter (never part of the forecast here).

The auto industry, according to a Nissan executive will not reach a sales level of the 1977 million mark until three years from now. KEDI's outlook does not point to anything like 11 million in the next three years. Production is seen as picking up somewhat to a level of roughly 6.5 million units in 1984, for instance.

TABLE 1.42 AUTOMOBILES

(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2*	3	4	1982	% (1)
Passenger cars								
Total sales	mil.	8.6	8.3	7.5	7.8	7.7	7.8	-9.3
Domestic	mil.	6.3	6.0	5.5	5.5	5.5	5.6	-11.2
Imported	mil.	2.3	2.3	2.0	2.2	2.2	2.1	-8.7
Dealers inventories**	mil.	1.5	1.1	1.2	1.6	1.7	1.4	-6.7
Factory shipments	mil.	6.3	4.1	4.9	5.1	5.2	4.8	-13.8
Light-duty truck sales	mil.	1.6	1.9	1.7	1.7	1.8	1.8	12.5

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Passenger cars								
Total sales	mil.	7.8	7.9	8.0	7.9	8.1	8.0	2.6
Domestic	mil.	5.6	6.1	6.0	6.0	6.3	6.1	8.9
Imported	mil.	2.1	1.8	2.0	1.9	1.8	1.9	-9.5
Dealers inventories**	mil.	1.4	1.7	1.6	1.4	1.4	1.5	7.1
Factory shipments**	mil.	4.8	5.6	5.8	5.5	6.1	5.8	20.8
Light-duty truck sales	mil.	1.8	1.7	1.8	1.9	1.9	1.8	.0

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Passenger cars								
Total sales	mil.	8.0	8.3	8.4	8.5	8.6	8.5	7.5
Domestic	mil.	6.1	6.6	6.7	6.9	6.9	6.8	11.5
Imported	mil.	1.9	1.7	1.7	1.6	1.7	1.7	-10.0
Dealers inventories**	mil.	1.5	1.5	1.5	1.4	1.6	1.5	.0
Factory shipments**	mil.	5.8	6.4	6.5	6.4	6.7	6.5	14.0
Light-duty truck sales	mil.	1.8	2.0	2.0	2.1	2.2	2.1	16.7

*Historical data (1) % change over previous year **Seas. not adjusted

1.50 BUDGETS

(Table 1.50 on page 17)

KEDI's forecast of the Federal deficit for fiscal 1982 has hit the mark. For months, it has been calculated here that the total would be close to $110 billion. In late October, it was announced by Treasury Secretary Donald Regan that the government spent $111 billion more than it had received. That was close to double the red-ink total of 1981 and made the previous record of about $66 billion for 1976 seem relatively small.

Experts in Congress and the White House look to a deficit of $150 billion in fiscal 1983 and $200 billion the following year if no changes are made to curtail the growth in debt. KEDI does not see the total as quite that large as can be seen in the table here which has been revised due to the reduced forecast data for indirect and business taxes, increased projections of federal spending related to slightly higher unemployment figures now foreseen for the 1982-84 years.

PROJECTION OF FISCAL YEAR DEFICITS COMPARED
(Billions of dollars)

	KEDI Oct. issue	KEDI Nov. issue	Congress. Budget Office as of October
1983	124	130	150
1984	110	118	200
1985	80	89	n.a.
1986	62	74	n.a.

Since 1980, KEDI has never projected a balanced budget. None is in our future for the next few years. Calculations here show that if the Federal budget would be brought into balance by increasing business and income taxation and cutting defense spending, the longed-for recovery would not occur and the economy would be stuck in a sustained recession. In this forecast, the projected surpluses of state and local budgets have been slightly reduced.

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Federal govt.:								
Income taxes	bil.$	298.1	299.9	305.8	296.9	300.1	300.8	.8
Corporate prof. tax accruals	bil.$	67.3	45.6	45.2	45.3	47.4	45.9	-31.8
Surplus/deficit	bil.$	-60.0	-119.3	-119.6	-135.9	-120.2	-123.8	206.3
State and local governments:								
Income taxes	bil.$	88.6	93.6	95.4	98.6	101.3	97.2	9.7
Corporate prof. tax accruals	bil.$	10.1	10.1	10.2	10.2	10.6	10.3	2.0
Surplus/deficit	bil.$	31.7	27.7	32.3	33.0	32.9	31.5	.0

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Federal govt.:								
Income taxes	bil.$	300.8	305.2	308.4	295.4	305.9	303.8	1.2
Corporate prof. tax accruals	bil.$	45.9	53.1	60.4	66.2	70.3	62.5	42.0
Surplus/deficit	bil.$	-123.8	-118.0	-126.5	-138.4	-119.7	-125.7	1.5
State and local governments:								
Income taxes	bil.$	97.2	105.1	109.9	111.3	112.4	109.7	12.9
Corporate prof. tax accruals	bil.$	10.3	12.1	13.0	13.4	14.0	13.1	27.1
Surplus/deficit	bil.$	31.5	34.0	34.9	36.8	35.4	35.3	12.1

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Federal govt.:								
Income taxes	bil.$	303.8	310.7	324.9	332.7	343.5	328.0	8.0
Corporate prof. tax accruals	bil.$	62.5	70.2	74.7	77.2	80.5	76.7	22.7
Surplus/deficit	bil.$	-125.7	-95.8	-90.4	-81.2	-74.3	-85.4	-32.0
State and local governments:								
Income taxes	bil.$	109.7	113.9	115.6	120.2	124.0	118.4	7.9
Corporate prof. tax accruals	bil.$	13.1	15.1	15.4	16.0	16.8	15.8	20.6
Surplus/deficit	bil.$	35.3	35.6	35.8	36.4	37.5	36.3	2.8

*Historical data 1) % change over previous year

1.60 INCOME

(Table 1.60 on page 19)

There are no essential changes in the forecast data for personal income and its components.

The projection of average weekly earnings shows that they will grow by approximately 4.2 per cent this year, 7.0 per cent in 1983 and 1984, 7.7 in 1985 and 7.8 per cent in 1986. However, when the KEDI's forecasts in the CPI are taken into account, there is hardly any gain in real purchasing power of average factory payrolls. One can also note on the more positive side that there are hardly any losses either. KEDI sees the CPI rate of change as being 6.5 per cent for this year, 7.2 in '83, 7.8 in '84, 7.9 in '85 and 8 per cent in 1986.

Yes, there is progress when compared with the 8-9 per cent increases in earnings in the 1979-81 years chipped away by the 10-12 per cent changes in the CPI. However, this Institute does not see any significant improvement that would bring about a more desirable combination of wages going up and inflation going down.

The forecast of after-tax profits has been somewhat reduced for 1983 and 1984 mainly due to the downward revision in profits of the oil, automobile, nonelectrical machinery, airlines, and the banking industries. KEDI's forecast of after tax profits shows that the over-all profits will be back at the 1981 level not earlier than in the year 1984. (See Table 1.60 on the following page.)

TABLE 1.60 INCOME

(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Personal income	bil.$	2415.8	2510.5	2552.7	2597.8	2629.2	2572.6	6.5
Personal disposable income	bil.$	2029.1	2117.1	2151.5	22o2.3	2281.7	2188.2	7.8
Compensation of employees	bil.$	1767.6	1819.9	1850.7	1867.8	1919.7	1864.5	5.5
Corporate after tax profits	bil.$	150.9	115.9	116.3	120.1	126.7	119.8	-20.6
Personal saving	bil.$	130.2	139.1	144.3	153.0	155.2	147.9	13.6
Average weekly earnings	$	316.8	320.5	328.1	332.4	338.8	330.0	4.2

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Personal income	bil.$	2572.6	2668.7	2704.6	2746.2	2807.5	2731.8	6.2
Personal disposable income	bil.$	2188.2	2300.4	2329.8	2380.6	2425.3	2359.0	7.8
Compensation of employees	bil.$	1864.5	1940.2	1983.8	2010.1	2043.8	1994.4	7.0
Corporate after tax profits	bil.$	119.8	131.2	133.5	141.2	149.4	138.8	15.8
Personal saving	bil.$	147.9	152.3	148.7	158.1	157.1	154.1	4.2
Average weekly earnings	$	330.0	341.2	352.0	357.8	361.2	353.1	7.0

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Personal income	bil.$	2731.8	2850.3	2919.8	2967.4	3018.4	2939.0	7.6
Personal disposable income	bil.$	2359.0	2469.4	2520.2	2557.5	2590.4	2534.4	7.4
Compensation of employees	bil.$	1994.4	2080.6	2150.2	2222.7	2550.3	2176.0	9.1
Corporate after tax profits	bil.$	138.8	153.6	157.8	160.2	165.1	159.2	14.6
Personal saving	bil.$	154.1	155.8	161.0	163.6	164.1	161.1	4.5
Average weekly earnings	$	353.1	369.9	374.4	379.7	384.9	377.2	6.8

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The Federal Reserve monetary and credit policy has been one of relaxation during this second half of 1982. That is exactly what KEDI has been forecasting since 1980. During 1983 and 1984 the projection is for a return to a more restrictive policy.

KEDI agrees with statements made by Fed representatives; namely, that the easing is an interim step. Paul Volcker noted that the Fed does not want to force interest rates any lower as they should fall with inflation. There are good prospects for some future reduction.

A leading FRB official mentioned that they have not returned to a policy of targeting the level of interest rates. That was abandoned as a policy in 1979.

This Institute predicted a year ago that the Federal Reserve Board would return to emphasizing M1 by the first part of 1983. The view of Phillip Braverman of Chase Manhattan expressed in October that the Fed would do just that, especially if the economy shows a bit of growth, reaffirms the forecast made here.

The projection of consumer installment credit has been increased a bit for the last quarter of this year and more significantly for 1983 and 1984 because of the increased forecast data for sales of consumer durables and mobile homes in that period. KEDI agrees with Chase Econometrics that a more substantial gain in consumer debt cannot be expected before the second quarter of 1983. The projection of commercial and industrial loans has been also increased a bit mainly due to the higher-than-previously anticipated demand for build-up of inventories in the second half of 1983 and throughout 1984.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits, M1", "Time deposits, adjusted, M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Currency and demand deposits, M1	bil.$	427.1	448.0	451.8	454.5	463.2	454.4	6.4
Time deposits, adjusted, M2	bil.$	1723.4	1851.1	1895.4	1912.8	1933.1	1898.1	10.1
Consumer instal. credit	bil.$	333.4	327.1	331.9	340.1	349.6	349.6	4.9
Commerc.& indus. loans at banks	bil.$	360.2	369.0	380.7	390.4	402.6	402.6	11.2
Large denomination time dep.	bil.$	295.4	307.7	322.4	328.9	330.9	322.5	9.2
Mortgages at S & L Assns.	bil.$	518.4	515.9	512.7	517.4	525.1	525.1	1.3

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Currency and demand deposits, M1	bil.$	454.4	468.5	476.8	485.8	495.9	481.8	6.0
Time deposits, adjusted, M2	bil.$	1898.1	1950.4	1995.3	2030.2	2077.9	2013.5	6.1
Consumer instal. credit	bil.$	349.6	353.7	358.9	367.4	375.0	375.0	7.3
Commerc.& indus. loans at banks	bil.$	402.6	408.5	413.2	421.5	429.8	429.8	6.8
Large denomination time dep.	bil.$	322.5	334.7	338.1	344.6	350.9	342.1	6.1
Mortgages at S & L Assns.	bil.$	525.1	530.1	535.6	546.2	548.7	548.7	4.5

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Currency and demand deposits, M1	bil.$	481.8	500.1	509.4	522.1	534.3	516.5	7.2
Time deposits, adjusted, M2	bil.$	2013.5	2008.9	2161.5	2219.9	2276.8	2166.8	7.6
Consumer instal. credit	bil.$	375.0	381.4	389.9	399.8	409.1	409.4	9.2
Commerc.& indus. loans at banks	bil.$	429.8	437.5	450.9	457.8	467.9	467.9	8.9
Large denomination time dep.	bil.$	342.1	355.7	368.2	379.6	388.7	373.1	9.1
Mortgages at S & L Assns.	bil.$	548.7	557.8	569.4	578.9	588.4	588.4	7.2

*Historical data (1) % change over previous year

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

Since 1980, KEDI has been projecting lower interest rates in the latter part of 1982. Again, the forecast here has been confirmed by the downward moves that have recently taken place. For the last two years this Institute has expressed disagreement with those that kept harping to a line reminiscent of "The sky is falling. The sky is falling." The alarm went more like, "Interest rates will go up! Interest rates will go up!" Among those were Henry Kaufman of Salomon Brothers.

The declines in interest rates are reaching the bottom according to projections here. KEDI expects that the prime rate will not fall for much longer. There has been a revision here for the year-end rate which is now seen as close to 12.5 per cent instead of 13. Other short-term rates will not drop much more either. There is general agreement here with Treasury Secretary Regan that the prime rate will level in the 12 per cent range.

This Institute's forecast of long-term rates shows that government and corporate bond yields will not move down for much longer and will be stable in 1983. Continuous drops are anticipated for mortgage rates and consumer credit rates. KEDI agrees with D. Straszheim of Wharton Econometrics that mortgage rates will average 14.3 per cent at the beginning of 1983 and edge down more after that time. KEDI's forecast of the stock market remains essentially unchanged when compared with the previous projection.

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982 1*	2	3	4	1982	% (1)
Treasury bills (3 mo) yield	%	14.03	12.81	11.97	9.65	9.72	11.04	-21.3
Prime rate	%	18.87	16.27	16.50	14.59	12.41	14.94	-20.8
Conventional mortgages rate	%	16.52	17.10	16.58	14.76	13.17	15.40	-6.8
Aaa corporate bonds rate	%	14.17	15.01	14.52	13.69	12.91	14.03	-1.0
20 years Govt. bonds yield	%	13.72	14.27	13.80	13.24	13.18	13.62	-.7
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	114.12	115.83	126.31	1117.60	-8.2

Indicator	Unit	1982	1983 1	2	3	4	1983	% (1)
Treasury bills (3 mo) yield	%	11.04	9.81	10.02	10.63	11.27	10.43	-5.5
Prime rate	%	14.94	11.85	11.88	12.10	12.48	12.08	-19.1
Conventional mortgages rate	%	15.40	13.10	13.04	13.56	13.82	13.38	-13.1
Aaa corporate bonds rate	%	14.03	12.65	12.01	11.92	11.83	12.10	-13.8
20 years Govt. bonds yield	%	13.62	13.49	13.54	13.21	13.09	13.33	-2.1
Standard & Poor's 500 avg.	1941-43=100	117.60	124.31	123.95	121.67	122.51	123.11	4.7

Indicator	Unit	1983	1984 1	2	3	4	1984	% (1)
Treasury bills (3 mo) yield	%	10.43	11.12	11.23	11.90	12.15	11.60	11.2
Prime rate	%	12.08	12.32	11.98	12.14	12.59	12.26	1.5
Conventional mortgages rate	%	13.38	13.69	13.54	13.07	13.38	13.42	.3
Aaa corporate bonds rate	%	12.10	12.05	12.34	12.79	12.98	12.54	3.6
20 years Govt. bonds yield	%	13.33	13.19	13.45	13.74	13.66	13.51	1.4
Standard & Poor's 500 avg.	1941-43=100	123.11	124.58	125.50	126.25	123.80	124.78	1.4

*Historical data (1) % change over previous year

3.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Change in Inventories in current dollars for the year 1981 (before the July 1981 revision) has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S.Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981). Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Change in Inventories, 1981, billions $)

Actual figure: 16.2

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	Actual minus Forecast [1/]
Georgia State University	11/80	6.6	23	9.6
The First National Bank of Chicago	11/8/80	-6.0	24	22.2
Manufacturers Hanover Trust	11/12/80	-1.1	25	17.3
UCLA	12/80	7.4	27	8.8
Philadelphia National Bank	12/4/80	-3.7	28	19.9
Bankers Trust Company	12/10/80	9.2	30	25.4
Standard & Poor's	12/11/80	-10.0	31	26.2
Data Resources	12/28/80	-1.6	32	18.8
KEDI	12/30/80	17.6	33	-1.4
Fidelity Bank	12/31/80	15.5	34	.7
Morgan Guaranty	1/6/81	3.5	35	12.7
Chase Econometrics	1/7/81	.5	36	15.7
Equitable Life Assurance Society	1/9/81	6.3	37	9.9

[1/] For example, Georgia State has forecast $6.6 billion, the actual figure is $16.2 billion so that the last column "Actual minus Forecast" records the difference which is $9.6 billion.

4.00 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP, page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0. HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36